THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #7086-82
1 September 1982

MEMORANDUM FOR: Director of Central Intelligence

VIA: Acting Chairman, National Intelligence Council

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: The Pipeline and East-West Trade

1. We are preparing two projects at your request under my direction:

(1) A broad assessment of the impact of Western export restrictions on oil and gas equipment, including pipeline equipment, on the Soviet economy.

(2) A big picture paper designed to help in developing a rationale for US-Allied agreement on East-West trade policy and some means of reducing the incentives our Allies have had to expand exports to the USSR.

2. SOVA is drafting the first paper, an outline of which I sent you yesterday. I will try my hand at the second paper, with support from SOVA, EURA, and OGI. Both should be ready on Monday, September 7. Together the two papers should put the oil and gas export control issue in a much broader perspective. They should also, incidentally, address the principal issues that are apparently raised by Roger Robinson of the NSC in his critique of the recent CIA paper on the pipeline since he was concerned more about what the paper did not address than about what it said. Roger gave me a rundown of his critique on the secure line and promised to LDX a copy to me today. Apparently it was completed two weeks ago but was held up somewhere in channels and not sent to the Agency.

Maurice C. Ernst

Att A: SOVA Outline
Att B: DCI Memo dtd 30 Aug 82

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THE NEW YORK TIMES - Saturday, August 28, 1982

U.S. WANTS EUROPE TO DEVISE VARIETY OF CURBS ON SOVIET

Officials Indicate the Pipeline Sanctions Could Be Lifted if Such Action Is Taken

By LESLIE H. GELB

Special to The New York Times

WASHINGTON, Aug. 27 — Senior officials said today that the Administration was prepared to remove sanctions against European companies supplying equipment to the Soviet natural gas pipeline if other means could be found to keep equivalent economic pressure on Moscow.

The officials added that they were looking for Western Europeans to develop a combination of measures. These would include limiting export credits to the Soviet Union, tightening controls on technology transfers, withholding exports of other kinds of oil and gas equipment and canceling contracts for the second, parallel strand of the projected 3,700-mile pipeline to Western Europe.

The goal of the measures would be to induce Moscow to lift or soften martial law curbs in Poland. The officials said that the Administration was prepared to pursue this aim in ways that would minimize further confrontations between the United States and its allies.

No Formal Proposal as Yet

As of now, according to the officials, the Administration has not made a formal proposal to the Europeans and there has been no indication that the Europeans are prepared to suggest alternatives of their own.

"We are looking for creative diplomacy," said one White House aide, but neither he nor others expressed any optimism about an early solution.

Administration officials said, in effect, that given President Reagan's determination to impose some sanctions, the idea of looking for alternative measures to those announced on Thursday appeared to be the only serious route to avoiding an intensification of the confrontations.

The controversy heightened on Thursday when President Reagan officially banned American companies from doing business with the French subsidiary of Dresser Industries of Dallas and Creusot-Loire, a company owned by the French Government and one of the prime contractors for the pipeline. The companies had defied an American embargo against shipping pipeline equipment.

The Commerce Department placed these companies on a "temporary denial" list that bars them from buying any goods and services from the United States, but does not prohibit exports by them to the United States. Dresser France, in an appeal, asked the department today to end the ban.

Other European companies using American technology to produce turbines and compressors to pump gas through the pipeline are also expected to defy the President's ban on these exports in the coming weeks. John Brown & Company of Britain is reported to be readying turbines produced under license from the General Electric Company for shipment to the Soviet Union next week.

Determination Stressed

Administration officials were careful today and Thursday to emphasize Mr. Reagan's determination to hold to his position and to underline that the steps he has taken thus far have been measured and limited. He is said to believe that the costs of his appearing irresolute over the sanctions would exceed the present costs of the conflict with the European allies.

The officials said that the policy line now is to manage and minimize the crisis, not to change course.

They added that the Europeans have three options in responding to Mr. Reagan's actions: to retaliate against American companies, to fight the battle through American companies in American courts or to look for sanctions against Moscow that might substitute for the President's existing measures. The officials said they doubted retaliation, expected some action in the American courts, but hoped the Europeans would give serious thought to substitute sanctions.

The officials were careful to state that, of the following possible substitutes, no one would be satisfactory, but they did not say how many in combination would be sufficient.

Agreed On at Meeting

The limiting of export credits to Moscow was discussed and agreed on at the summit meeting in Versailles, France, in June. But no sooner had the leaders of the seven participating nations issued the communiqué with language about limitations than several said the language did not mean much. The Administration has long felt that Western Europeans were subsidizing Soviet economic development through these export credits.

The Administration has also made repeated efforts to tighten technology transfers to the Soviet Union through the Coordinating Committee, a grouping of Atlantic alliance countries without Iceland and including Japan, devoted to establishing lists by consensus of permissible transfers to Communist countries.

There is also interest within the Administration in limiting a variety of oil and gas equipment routinely sold to the Soviet Union. It was not clear whether this would apply to the projected pipeline to Europe or to other Soviet energy projects.

The Administration would also like to see the projected pipeline reduced from two strands to one. This would effectively halve the line's planned capacity of 1.236 trillion cubic feet of natural gas. There is some feeling in the Administration that oil and gas will be available in sufficient quantities at low enough prices in the 1980's to warrant the Europeans rethinking the extent of their commitment to the pipeline deal with Moscow.

Administration officials said that no special diplomatic activity was under way to test the feasibility of the substitutes. Apparently, none of the parties wants to take the first move for fear of signaling any weakness. "If some high official makes a special trip to Europe, it will be because it looks like there is some chance, not otherwise," said one official. Bill Brock, the United States trade representative, is scheduled to attend a private conference in Britain next week.